



Investment Update September 2024

Investment Headlines & Comment

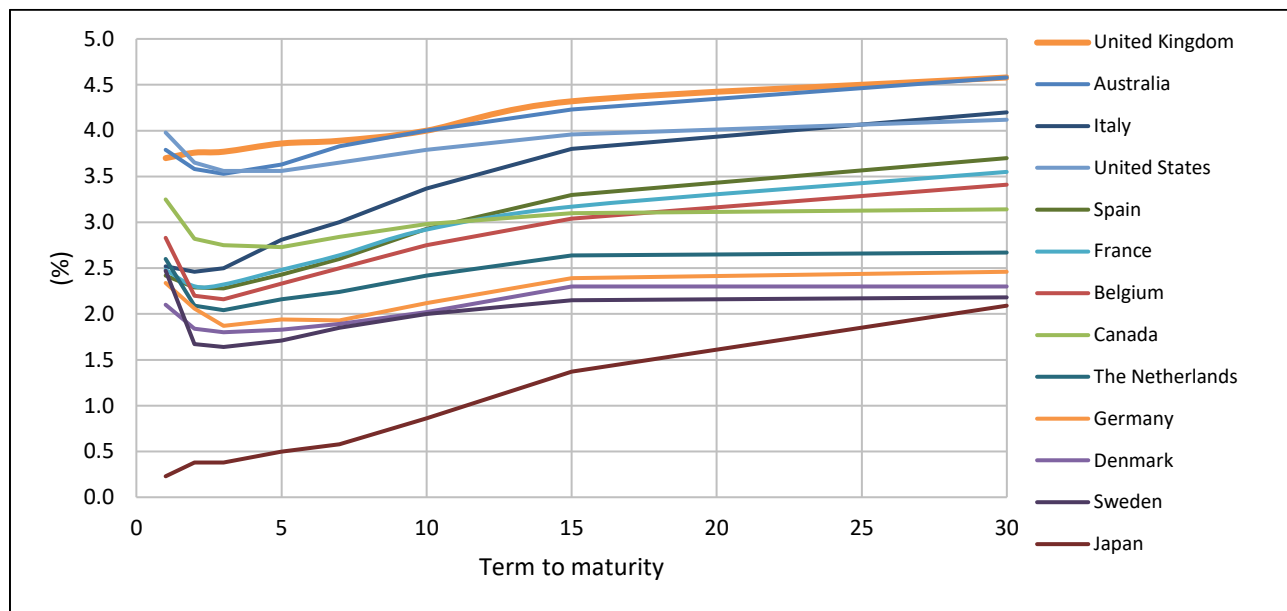
- A strong month for Emerging Markets.
- Sterling continues to strengthen to levels last seen in 2016.
- Over £110bn of offers for the new 2040 gilt.

Feature Section

This month we revisit the range of yield curves across the main index constituents of the JP Morgan Developed Markets Index for government bonds. We last considered this in our [September 2021](#) issue, but there has been considerable movement since then. All data is courtesy of JP Morgan, as of 30 September 2024.

Figure 1 shows the curves for the main 13 markets. The legend shows the countries in descending order for their 30-year yields. We again need to make a small caveat on the data in that whilst yields are quoted at the 10- and 15-year points, there is then a jump out to 30 years for the next data point. Any yield curve curvature between those last two points is thus unfortunately effectively “hidden”.

Figure 1: Government Bond Yield Curves



Source: JP Morgan

Three years ago, conditions were very unusual, in that many countries had negative nominal yields through to at least 3 years. Things are clearly very different now at the shorter end following the widespread increases in bank base rates in a bid to combat inflation. At the longer end, the dispersion is still pretty wide at around 2.5% p.a. The United Kingdom’s yields are the highest at all maturities of 2 years or longer, which is rather dispiriting particularly given the gilt market profile examined in last month’s edition.

Looking at just those markets which are within the Eurozone, the yield dispersion starts out at the 1-year point as 0.7% p.a. for Belgium relative to Denmark, and that dispersion magnitude applies for the next few maturities as well. For periods of 5 years or more, the dispersion rises and Italy consistently has the highest yield. By the 10-year point the dispersion is 1.35% p.a. By 30 years, the measure is up at 1.9% p.a.

As per three years ago, and indeed for the last fifteen years or so, there is not much sign of Euro cohesion here, yet there is still no indication on how or when it will be resolved.



Asset Returns and Financial Measures [*in Sterling unless marked otherwise*]

The cells in bold with light shading show the best and worst performing asset classes from each column. The commodities and \$-based and unhedged-£-conversion hedge fund returns are excluded from that.

[NB: Future returns cannot be inferred from this table alone, but coupled with other items within *Update*, readers can make inferences as to whether they should be higher or lower than the past returns shown below.]

Table 1: Investment Data to 30 September 2024

Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	-1.3	2.3	13.6	7.4	5.7	6.3	7.2
Overseas Equities	-0.2	0.2	20.4	8.6	10.9	12.3	10.8
US Equities	0.0	0.1	23.7	11.3	13.9	15.4	8.6
Europe ex UK Equities	-1.6	0.2	12.2	4.6	7.0	8.4	12.5
Japan Equities	-2.0	0.6	10.7	3.2	5.7	8.9	6.9
Pacific ex Japan Equities	1.5	0.3	17.9	2.5	5.8	7.9	10.3
Emerging Markets	4.6	2.6	15.1	1.0	4.4	6.4	9.3
UK Long-dated Gilts	-0.7	2.6	11.5	-14.8	-10.4	-0.5	3.1
UK Long-dated Corp. Bonds	-0.8	1.4	12.4	-10.1	-5.6	1.3	3.9
UK Over 5 Yrs Index-Linked Gilts	-0.4	1.5	7.6	-14.3	-8.7	0.5	4.0
High Yield (Global)	-0.3	-0.2	6.5	2.2	2.2	6.3	8.0
Overseas Bonds	-0.4	1.0	0.0	-4.0	-3.7	2.0	3.7
Property *	0.6	1.7	1.9	0.7	2.0	5.3	5.6
Cash	0.4	1.3	5.4	3.7	2.3	1.4	2.1
Commodities £-converted	-2.1	-10.7	-14.6	9.0	6.2	-0.5	-1.1
Hedge Funds original \$ basis *	0.2	1.5	10.5	3.5	7.1	4.9	5.4
Illustrative £-converted version *	-2.0	-1.7	6.5	5.1	5.5	7.4	7.1
Euro relative to Sterling	-1.2	-1.9	-3.9	-1.1	-1.2	0.7	1.0
US \$ relative to Sterling	-2.0	-5.8	-9.1	0.2	-1.7	1.9	1.5
Japanese Yen relative to Sterling	-0.3	6.0	-5.0	-7.8	-7.0	-0.8	0.2
Sterling trade weighted	1.1	2.9	6.4	1.9	2.2	-0.3	-0.8
Price Inflation (RPI) *	0.6	0.9	3.5	8.2	6.0	4.3	3.7
Price Inflation (CPI) *	0.4	0.3	2.3	6.2	4.4	3.0	2.8
Price Inflation (RPIX) *	0.6	0.8	2.8	7.5	5.6	4.1	3.7
Earnings Inflation **	-1.8	-1.2	3.8	5.9	4.9	3.9	3.2
All Share Capital Growth	-1.4	1.3	9.5	3.6	2.1	2.5	3.5
Dividend Growth	0.2	-1.4	3.2	8.4	-1.0	3.2	4.2
Earnings Growth	1.1	3.4	15.9	5.9	4.9	2.5	4.2

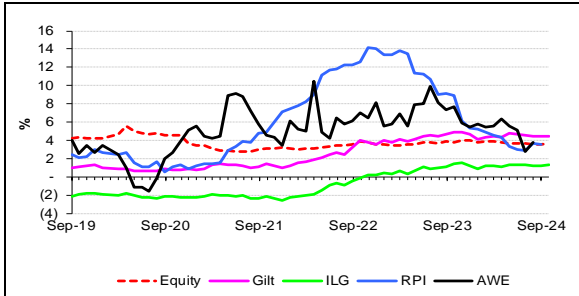
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- UK Equities (incl. dividends and earnings) – FT-A All Share.
- Overseas Equities (incl. regions) – blend of FT All-World / World sub-indices
- Emerging Markets from MSCI US \$ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment restrictions), conversion to UK £ by J&A.
- UK Bonds – FT-A indices (Gilts Over 15 Years, ILG Over 5 Years)
- UK Corporate Bonds – iBoxx Non-Gilt **Over 15 Year** index (all credit ratings combined)
- High Yield – ICE Global, £ Unhedged
- Overseas Bonds – JP Morgan Traded Unhedged World ex UK
- Property – MSCI IPD UK Monthly Property Index
- Commodities – GSCI Total Return, converted to UK £ by J&A
- Hedge Funds Composite – HFRI US \$ based total return index plus converted to UK £ by J&A. **NB A smooth “cash + x%” return will only be shown in the base ‘hedged’ currency, here the US \$.**
- Cash – an indicative index based on the three-month London Interbank Sterling mid-rate, calculated internally by J&A
- Price and earnings inflation – RPI, CPI, RPIX, and Average Weekly Earnings (whole economy, not seasonally adjusted, latest provisional data)
- Currency data – London close, from the Financial Times
- * denotes data lagged by 1 month, ** by 2 months – these reflect the later publication dates of these data items.

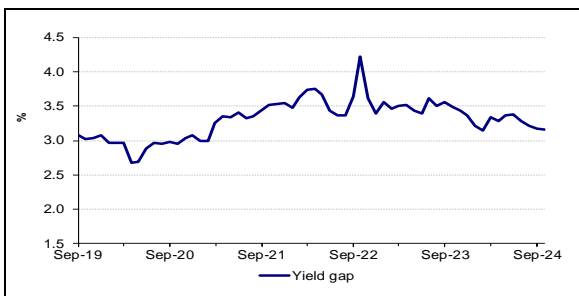


Yields and Yield Gaps

Figure 2: Yields, Inflation and Yield Gaps



The yield gap is a measure of expected average future inflation, derived as long bond yield minus ILG yield.

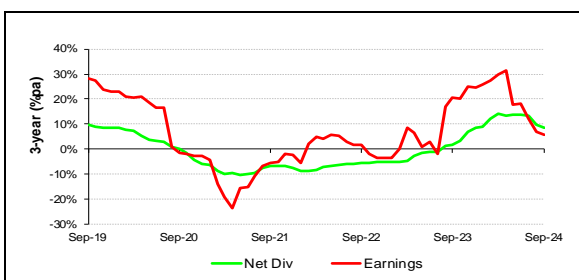
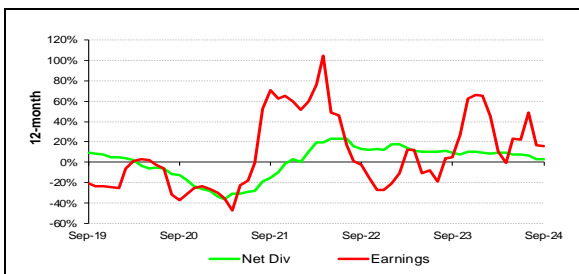


The gap gives a current expectation of around 3.2% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

Growth in Earnings and Dividends

These charts show movements in rolling 12-month and 3-year dividend and earnings growth for UK Equities over the last 5 years. [NB the charts have different scales]

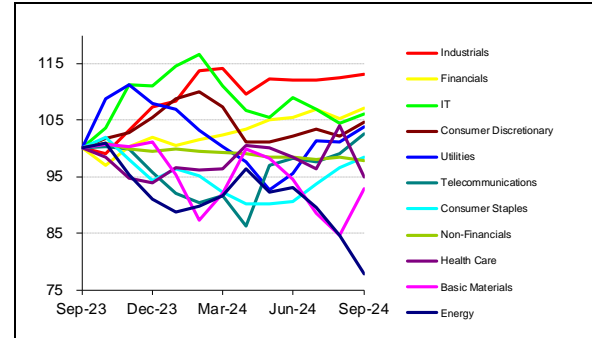
Figure 3: Dividend & Earnings Growth



Note: Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



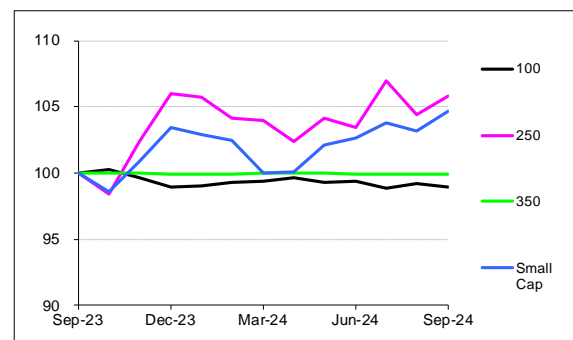
Note: Sector labels for relative lines are in end-value order

There was a rise this month in the rolling 12-month sector dispersion (up from 20% to 35%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-9.3	-14.5	-11.6
Basic Materials	8.4	0.4	5.5
Industrials	-0.7	3.3	28.5
Consumer Staples	0.6	11.1	11.9
Health Care	-9.8	-1.3	8.0
Consumer Discretionary	1.0	4.8	18.9
Telecommunications	2.2	6.7	16.5
Utilities	1.3	11.0	17.9
Non-Finan	-1.8	1.7	11.2
Financials	0.4	3.9	21.7
IT	0.2	-0.6	20.5
All Share	-1.3	2.3	13.6

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both rose relative to the All Share.

Sources for charts on this page:
Financial Times, Office for National Statistics, J&A



Bond market information

Figure 5: £ Non-Gilt Credit Margins

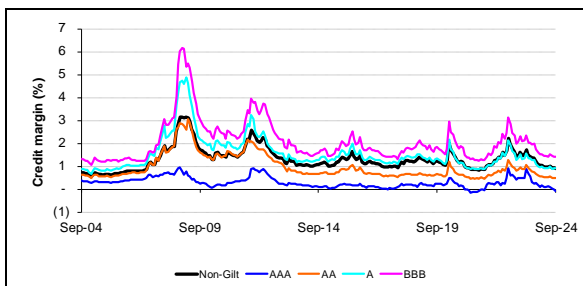


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Apr '24	5.15	4.72	0.43
May '24	5.11	4.67	0.44
Jun '24	5.05	4.58	0.47
Jul '24	4.90	4.43	0.47
Aug '24	4.90	4.40	0.50
Sep '24	5.00	4.45	0.55

Tables 2b, 2c: £ Market Size (£bn) and Maturity

Category	Mkt Val (£bn @ Sep 24 & 21, 18)			Weight (%)
	Sep 24	Sep 21	Sep 18	
Gilts (61)	1,540	1,750	1,298	72.8
Non-Gilts (1,244)	574	651	566	27.2
AAA (151)	120	127	115	5.7
AA (174)	80	75	81	3.8
A (432)	170	184	161	8.0
BBB (487)	205	264	209	9.7

Category	Mkt Val (£bn @ Sep 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (61)	1,540	1,750	72.8	9.2
< 5 Yrs (15)	491	445	23.2	2.6
5-15 Yrs (18)	533	531	25.2	7.9
> 15 Yrs (28)	516	774	24.4	16.8
Non-Gilts (1,244)	574	651	27.2	5.6
< 5 Yrs (593)	306	226	14.5	2.6
5-15 Yrs (438)	188	279	8.9	7.0
> 15 Yrs (213)	81	146	3.8	13.5

Tables 2d, 2e: € Market Size and Maturity (Sep 24)

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (522)	7,704	56.9
Non-Sovereigns	5,843	43.1
AAA (1,315)	1,992	14.7
AA (890)	1,092	8.1
A (1,577)	1,279	9.4
BBB (2,070)	1,480	10.9

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,801)	3,270	24.1
3 – 5 Yrs (1,656)	3,029	22.4
5 – 7 Yrs (1,156)	2,139	15.8
7 – 10 Yrs (982)	2,216	16.4
10+ Yrs (779)	2,893	21.4

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Sep 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (32)	552	829	100.0	15.5
< 5 Yrs (4)	99	90	18.0	3.3
5 – 15 Yrs (9)	186	192	33.6	9.5
> 15 Yrs (19)	267	547	48.4	24.2

Table 2g: High Yield bond yields (BB-B indices)

Month End	US (%)	Euro (%)	Sterling (%)
Jul '24	6.92	5.50	8.19
Aug '24	6.69	5.33	8.13
Sep '24	6.52	5.18	7.82

Sources: DMO, FTSE, iBoxx, ICE, J&A

£ Gilt Market “main” & “Green” Issuance

- o £2.00bn, 1/8% 2026 (4.17x, 3.56%, n/a, Apr '22)
- o £4.00bn, 4 1/8% 2029 (3.29x, 3.81%, 0%, Aug '24)
- o £3.75bn, 4% 2031 (2.98x, 3.81%, 0%, Jul '24)
- o £1.71bn, 3/4% IL 2033 (3.17x, 0.49%, 14%, Aug '24)
- o £2.75bn, 7/8% Gr 2033 (3.55x, 3.73%, n/a, May '24)
- o £3.75bn, 4 1/4% 2034 (2.84x, 3.76%, 0%, Jul '24)
- o £8.00bn, 4 3/8% 2040 (13.8x, 4.34%, n/a, new)
- o £1.00bn, 5/8% IL 2045 (3.44x, 1.20%, 11%, Jun '24)
- o £2.75bn, 4 3/8% 2054 (2.89x, 4.33%, 22%, Jul '24)

Note: Issuance amounts are nominals. The second % figure in each row is the yield or real yield. The third % figure is the additional amount taken up under the Post Auction Option Facility (PAOF), as a % of the amount of the issue. No PAOF applies for Green Gilt (Gr), tender or syndication cases.

